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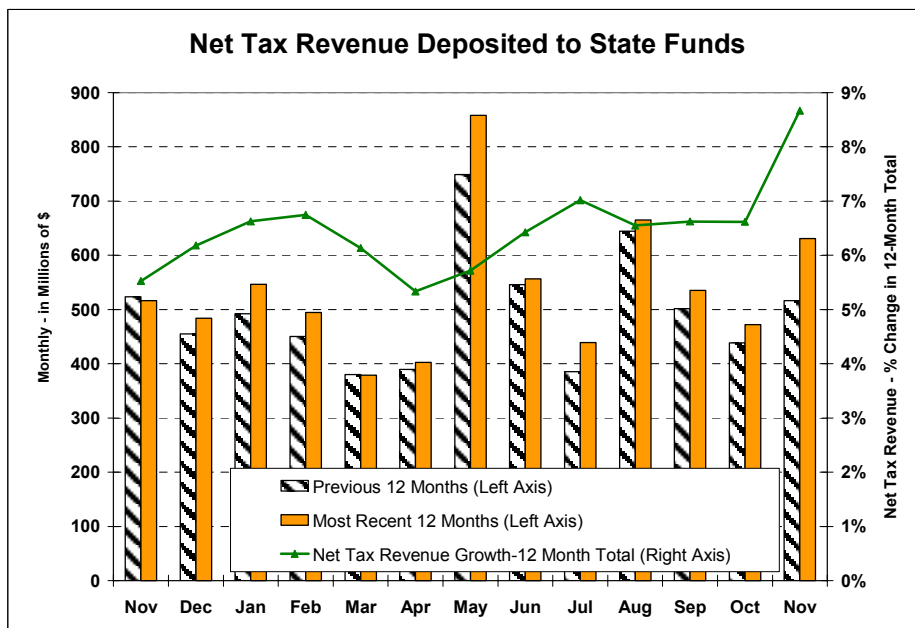
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: December 19, 2007

Twelve-month Total Net Tax Receipts Through November 30, 2007

The attached spreadsheet presents net State tax receipts for the 12-month period ending November 2007 with comparisons to the previous 12 months. November 2007 to November 2006 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those tax receipts.



Month of November Comparison

November net tax receipts totaled \$630.8 million, an increase of \$114.5 million (22.2%) compared to November 2006. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$23.8 million, 11.1%) – Gross receipts were up \$26.6 million while Income Tax refunds increased \$2.8 million for the month. Gross receipts growth was driven by strong withholding deposits.

- Corporate Income Tax (positive \$27.5 million) – Gross receipts increased \$12.9 million and refunds decreased \$14.6 million. Strong growth in October and November follows two negative growth months for net Corporate Income Tax.
- Sales/Use Tax (positive \$45.7 million, 20.1%) – General Fund Gross Sales/Use Tax receipts increased \$40.2 million and Use Tax deposited to the Road Use Fund increased \$4.0 million. Refunds issued for the month decreased \$1.4 million. A significant portion of the General Fund increase is due to adjustments to Local Option Sales Tax transfers out of the General Fund and to the Local Option Sales Tax addition of Linn and Johnson counties effective July 1, 2007.
- Fuel Tax (negative \$0.8 million, - 2.2%) – Gross Fuel Tax revenue decreased \$1.2 million while refunds processed in the month decreased \$0.4 million.
- Cigarette & Tobacco Taxes (positive \$14.8 million, 189.7%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending November 2007, net revenue from all taxes deposited to State funds totaled \$6.463 billion, an increase of \$515.5 million (8.7%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$292.5 million, 11.9%) – Growth has generally been strong in all three components of Individual Income Tax receipts, withholding, estimate payments, and payments with returns.
- Corporate Tax (positive \$54.2 million, 18.5%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last seven months but remains solidly positive.
- Sales/Use Tax (positive \$68.9 million, 3.3%) – The rate of Sales/Use Tax growth has been slowing over the past 12 months. Higher gas prices and declining home equity withdrawals are likely contributing to the lagging receipts of both the General Fund and the Road Use Tax Fund (vehicle sales), while the General Fund is also impacted by reduced new home construction. General Fund Sales/Use Tax receipts have been very volatile over the past eight months due to the deposit and withdrawal of Local Option Sales Tax revenue.
- Fuel Tax (positive \$19.0 million, 4.4%) – Net Motor Fuel tax revenue has been flat to slightly positive over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$11.7 million, 4.2%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.
- Cigarette and Tobacco Tax (positive \$103.4 million, 105.5%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$35.2 million, - 26.5%) – The Insurance Premium Tax rate is being reduced over multiple years. Calendar year 2007 is the first year all premiums are taxed at the final 1.0% rate. The use of tax credits may also be impacting this revenue source.

Tax Spotlight – Racing and Gaming Tax

Pari-mutuel wagering and gambling (excursion boats, gambling structures, and racetracks) are taxed under the authority of Chapter 99D and Chapter 99F, Code of Iowa. Taxes applied to pari-mutuel wagering and gambling are as follows:

- The pari-mutuel tax on horse racing is 6.0% of the gross sum wagered. However, if the gross sum wagered is less than \$90.0 million then the net tax is 0.0%. If the gross sum wagered is \$90.0 million or above, the net tax is 1.0% due to a tax credit based on the gross sum wagered. There is currently one establishment in Iowa that has horse racing.
- The pari-mutuel tax on dog racing is 4.0% of the gross sum wagered of \$30.0 million or less, 5.0% between \$30.0 million and \$55.0 million, and 6.0% on \$55.0 million or more. There are currently two establishments in Iowa that offer dog racing.
- The pari-mutuel tax on simulcast races is 2.0% of the gross sum wagered. There are currently three establishments in Iowa that offer wagering on simulcast races.
- On casino games, the State wagering tax is 5.0% of the first \$1.0 million of adjusted gross gambling receipts, 10.0% of the next \$2.0 million, and 22.0% of adjusted gross receipts over \$3.0 million. If the entity offering gambling is a racetrack, then the maximum rate can increase to 24.0% if the amount of adjusted gambling receipts is \$100.0 million or more. In addition to the three racetracks that offer gambling, there are 14 other casinos that offer gaming that is subject to the State wagering tax in Iowa.

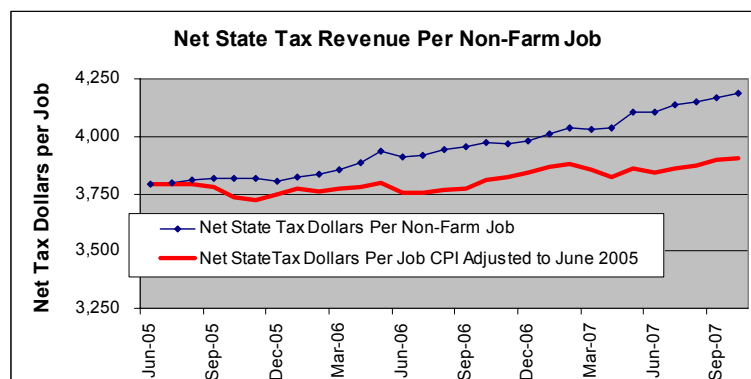
Pari-mutuel /Gambling Timeline

Pari-mutuel gambling on horse and dog races was approved with passage of SF 92 (Pari-mutuel Wagering Act) in 1983 with a tax rate of 6.0%. Simulcasting of races was approved in SF 220 (Pari-mutuel Wagering Changes Act of 1989). This Act also changed the tax on horse and dog racing to its current percentages. The Excursion Boat Gambling Act of 1989 (SF 124) provided for gaming on excursion boats and taxed gambling receipts at 5.0% on the first \$1.0 million, 10.0% on the next \$2.0 million, and 20.0% on gambling receipts above \$3.0 million.

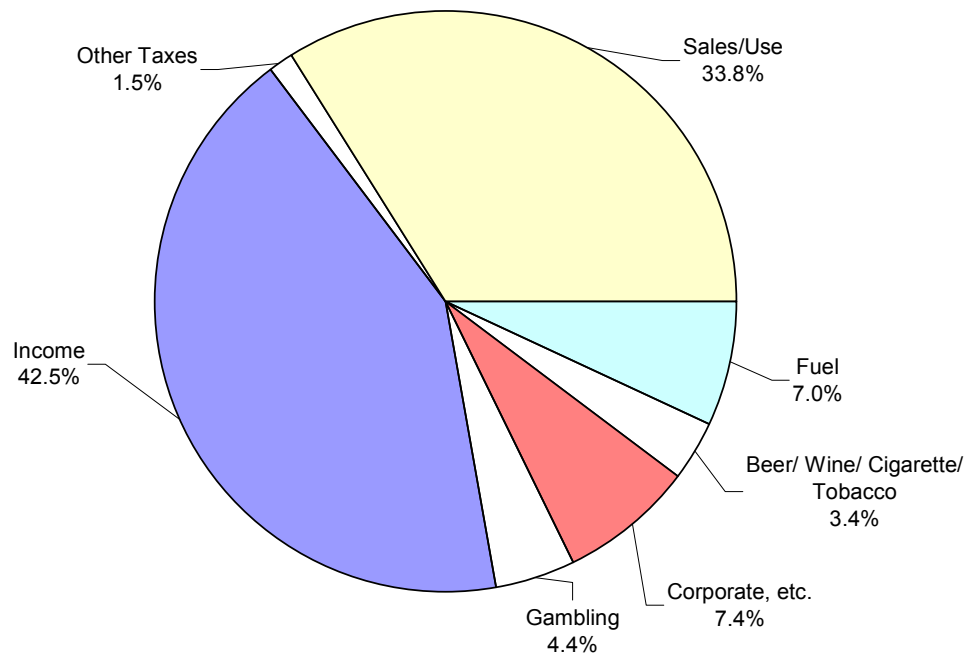
House File (Gambling at Pari-mutuel Racetracks Act of 1994) authorized slot machines at pari-mutuel racetracks with wagering taxed at 22.0% in the initial year and increasing by two percentage points per year until the rate reached 36.0%. In 2002, the Iowa Supreme Court ruled racetrack casinos could not be taxed differently than excursion boat casinos. In response to the ruling, the General Assembly passed HF 2302 (Gambling Changes Act) which changed the tax rates to the current rates.

Tax Revenue and Employment

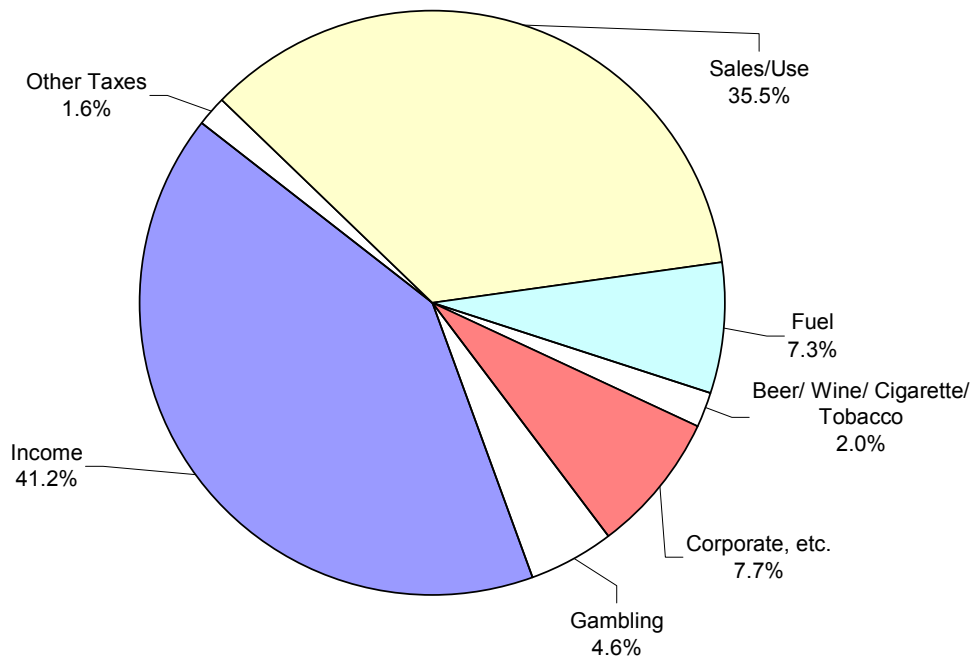
The average reading for Iowa non-farm employment over the 12 months ending October 2007 is 1,518,800, and net State tax receipts over the same 12 months totaled \$6.348 billion, or \$4,185 per non-farm job. This is \$395 (10.4%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 7.4%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.3% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending November 2007
Net Revenue = \$6.463 Billion



Net State Tax Revenue - Twelve Months Ending November 2006
Net Revenue = \$5.947 Billion



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of November 2006	Month of November 2007	November \$ Change	November % Change
Banking	\$ 33.4	\$ 32.4	\$ - 1.0	-3.0%	\$ 0.4	\$ - 0.5	\$ - 0.9	-225.0%
Beer & Wine	20.0	20.6	0.6	3.0%	1.9	2.1	0.2	10.5%
Cigarette & Tobacco	98.0	201.4	103.4	105.5%	7.8	22.6	14.8	189.7%
Corporate Income	293.6	347.8	54.2	18.5%	- 5.1	22.4	27.5	-539.2%
Fuel	434.1	453.1	19.0	4.4%	35.8	35.0	- 0.8	-2.2%
Gambling	275.7	287.4	11.7	4.2%	26.9	27.9	1.0	3.7%
Individual Income	2,451.8	2,744.3	292.5	11.9%	213.9	237.7	23.8	11.1%
Inheritance	71.2	74.7	3.5	4.9%	5.3	8.0	2.7	50.9%
Insurance	132.7	97.5	- 35.2	-26.5%	0.1	0.0	- 0.1	-100.0%
Other Taxes	5.0	2.8	- 2.2	-44.0%	0.3	0.8	0.5	166.7%
Real Estate Transfer	18.5	18.3	- 0.2	-1.1%	1.3	1.4	0.1	7.7%
Sales/Use	2,113.3	2,182.2	68.9	3.3%	227.7	273.4	45.7	20.1%
Total Net Taxes	\$ 5,947.3	\$ 6,462.6	\$ 515.5	8.7%	\$ 516.3	\$ 630.8	\$ 114.5	22.2%
Gross Tax & Refunds								
Gross Tax	\$ 6,612.5	\$ 7,123.3	\$ 510.8	7.7%	\$ 562.5	\$ 663.7	\$ 101.2	18.0%
Tax Refunds	\$ - 665.3	\$ - 660.7	\$ 4.6	-0.7%	\$ - 46.0	\$ - 32.7	\$ 13.3	-28.9%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,013.3	\$ 5,487.8	\$ 474.5	9.5%	\$ 427.0	\$ 541.0	\$ 114.0	26.7%
Road Use Tax Fund	\$ 676.1	\$ 710.6	\$ 34.5	5.1%	\$ 56.9	\$ 60.3	\$ 3.4	6.0%
Non-GF Gambling	\$ 216.8	\$ 227.2	\$ 10.4	4.8%	\$ 26.9	\$ 27.6	\$ 0.7	2.6%
Other State Funds	\$ 41.0	\$ 37.0	\$ - 4.0	-9.8%	\$ 5.7	\$ 2.1	\$ - 3.6	-63.2%
Local Option Taxes *	\$ 613.6	\$ 680.8	\$ 67.2	11.0%	\$ 91.1	\$ 81.2	\$ - 9.9	-10.9%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Wine: Tax on beer is deposited to the State General Fund. The tax on wine is deposited to the Liquor Control Fund and a Department of Economic Development Fund. Prior to FY 2008, a portion was deposited to a Fund controlled by the Department of Agriculture and Land Stewardship.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor fuel Tax: All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use tax: General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.